

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 57th LEGISLATURE - SPECIAL SESSION JOINT HOUSE APPROPRIATIONS AND SENATE FINANCE AND CLAIMS

Call to Order: By **CHAIR BOB KEENAN, SENATOR** on July 24, 2002 at 8:00 A.M., in Room 303 Capitol.

ROLL CALL

Members Present:

Rep. Dave Lewis, Chair (R)
Rep. Edith Clark, Vice Chair (R)
Rep. Matt McCann, Vice Chair (D)
Rep. John Brueggeman (R)
Rep. Rosalie (Rosie) Buzzas (D)
Rep. Tim Callahan (D)
Rep. Bob Davies (R)
Rep. Stanley (Stan) Fisher (R)
Rep. Dick Haines (R)
Rep. Joey Jayne (D)
Rep. Dave Kasten (R)
Rep. Christine Kaufmann (D)
Rep. Monica Lindeen (D)
Rep. John Sinrud (R)
Rep. Joe Tropila (D)
Rep. John Witt (R)

Members Excused: Rep. Donald L. Hedges (R)
Rep. Jeff Pattison (R)

Senate Members Present:

Sen. Bob Keenan, Chair
Sen. Ken Miller, Vice Chair
Sen. Tom Beck
Sen. Chris Christiaens
Sen. John Cobb
Sen. William Crismore
Sen. Greg Jergeson
Sen. Bea McCarthy
Sen. Arnie Mohl
Sen. Linda Nelson
Sen. Debbie Shea
Sen. Corey Stapleton

Sen. Bill Tash
Sen. Jon Tester
Sen. Mignon Waterman
Sen. Jack Wells
Sen. Tom Zook

Members Absent: None.

Staff Present: Jon Moe, Legislative Branch
Mary Lou Schmitz, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary: Joint Meeting, Senate Finance and Claims and House Appropriation

Senator Bob Keenan, Chairman, called the meeting to order and Roll Call was taken. **Clayton Schenck, Legislative Fiscal Analyst,** presented the budget analysis for the Special Session. **EXHIBIT(aph-9a01)** He talked about the budget shortfall, what the projections are and what options the legislature may have to deal with.

Mr. Schenck referred to page 4, Legislative Projections, 2001 Session, saying the projected ending fund balance has declined by \$112 million, prior to budget reductions, leaving a deficit of \$58.3 million. Executive projections are side by side in Figure 2, page 5. The Executive in column 1 shows almost a \$22 million deficit. That is before legislative action. That leaves a shortfall of \$49 million when you compare it to the statutory minimum ending fund balance as required by statute.

The legislative projection is \$34.6 million compared to the \$22 million executive so there is a difference of \$12.6 million as shown and it is in the area of supplemental appropriations, pages 6 and 7. Supplementals are always more than anticipated.

There is a difference in the revenue estimates of \$1.5 million.

Mr. Schenck explained the reasons for declining general fund balances on page 8 and the comparison with other states on page 9. The options to resolve the problem are to adopt the plan the executive has laid out and get to a fund balance that can be lived with and figure priorities, page 11.

Mr. Schenck referred to page 29, a summary of what has been going on in other states. Many states are in special session now. The main purpose of the staff is to give the committee a perspective

how other states have dealt with budget shortfalls and the options they have used. Pages 30, 31 and 32.

The Executive Proposed Budget Plan is on page 33. The top of page 35 highlights the executive proposals. Top of page 36 discusses 12% of the reductions that would impact payments and grants by the state. Reduced payments for schools is discussed in the second paragraph. There are some potential long-term impacts, such as the shift that some of the money from the highway special revenue account, to cover general fund costs. There are no layoffs of state employees intended in this.

A Summary Table on Pages 40 and 41 lists all the executive proposals that add up to the \$45 million. Most of those will be taken up in House Appropriations beginning today while some of them are being referred to the Taxation Committee. Some of these proposals are contingent on passage of other Bills.

Page 99 of the Report provides an outlook into the 2005 Biennium.

Issues are going to be complex. To a certain extent it will be a difficult session. There will be 150 legislators focused on budget issues. Most of them don't work with issues these complex or spending reductions. The Governor directed \$23 million in spending reductions but they won't show up in HB 2.

Staff is prepared to assist the legislators any way they can.

Questions from the Committee: Rep. Lewis said, slightly over one year ago, they had \$176 million general fund balance. Now 14 months later we have a projected deficit of around \$35 million. This is such an extraordinary turnaround. Mr. Schenck said the legislature had to deal with a \$200 million shortfall in 1986 and the only reason they are not dealing with that now is because of that surplus.

In response to a question from Rep. Lindeen, Mr. Schenck said they did know that there was a recession during the last session. They knew it was coming. Montana wasn't necessarily as impacted as most states by that recession. The revenue estimates that were put together last session did reflect an anticipated exposure but the magnitude of what has happened certainly wasn't anticipated. The projections the legislature did were somewhat conservative the last session.

Rep. Kasten explained that part of the problem in revenue estimates was spending beyond their means.

Sen. Zook referred to **Mr. Schenck's** figure of \$7.5 million fire supplemental. Never has a figure been included for wild fire costs in the budgeting. Basically, because they have no idea what that will be and asked why that was added in? **Mr. Schenck** said the legislature doesn't budget for supplementals but he is tracking where the potential shortfalls might be. \$7 million is a conservative estimate. **Sen. Zook** said he isn't saying it's a bad idea but it distorts the picture a little bit as compared to the previous biennium by that amount.

Rep. Buzzas referred to **Mr. Schenck's** analysis regarding the problem of collections by the Revenue Dept. **Mr. Schenck** said they had a system for collecting taxes that was different systems for different taxes and what they have been trying to do is bring that all together. There has been a real dedicated effort to attempt to make that system work. A lot of resources have been made to deal with that so it has taken them away from what they want to do. He feels the burden on that system has not had any impact on their collection of revenues outside the accounting process.

Sen. Johnson referred to the cash situation. Currently, they have issued short-term notes or bonds on the cash situation in the state. What position are we in? **Chuck Swysgood, Office of Budget Program and Planning**, said they are looking at issuing trends in the office because rates are very conducive to that. That cash probably won't be needed until November. About \$125 million.

Sen. Beck referred to when the legislature left the last regular session, they were somewhat in a deficit spending situation. They were to use one-time monies to fund operating the budget. With the budget cuts that the Budget Director is recommending, are we committed to address this deficit spending? **Mr. Schenck** said they are dealing with reductions in state spending in FY 2000 and that is the second year of the budget. In terms of the budget process, they budget on a base year, which is 2000, so those expenditures of 2002 are still going to be in the base level. Reductions have been taken.

Sen. Shea referred to **Mr. Schenck's** statistics, 21 states have looked at their deficits and eliminated programs. **Mr. Schenck** said 21 states have done budget reductions and have dealt with expenditures. **Sen. Shea** asked if we are part of that 21. **Mr. Schenck** said they did not include Montana because they are just coming into the session. **Rep. Shea** asked if he has any statistics on states that are possibly dipping into rainy-day savings as their situations arise? **Mr. Schenck** said 46 of the

states do have rainy-day funds that are designed for that specific purpose. Most of the states have that tool in place.

Rep. McCann asked **Mr. Schenck** if there were any anticipated one-time revenues coming in, possibly Workmen's Comp. Are there any other dollars available? **Mr. Schenck** said they haven't anticipated any. He doesn't know of any potential sources.

Sen. Cobb referred to pages 6 and 7, Supplementals, Figure 3. Should \$12.6 million be added? **Mr. Schenck** said \$11.8 million should be in addition.

Rep. Lindeen said they should be able to take that \$18 or \$20 million that is sitting in a liability fund and belongs to the general fund anyway. Does that money really exist and shouldn't we use that instead of cutting education. **Mr. Swysgood** will answer that question when he makes his presentation.

Sen. Christiaens referred to the Corrections' budget with an approximate \$9 million over-ride. Are we saying the Department of Corrections, through the first fiscal year, did not have any other plans or did they transfer money from the second year of the biennium to the first year. **An Aide from the Department** said this is just for 2003. The Department was able to mitigate 2002 shortfalls and make it through that fiscal year. There is a proposal, just an LC number right now, to mitigate the \$9 million. That will be brought forward in the special session. The shortfall was made up in the first fiscal year by a few policy changes.

Sen. Waterman referred to page 45, saying there is an increase for the Judiciary for two judgeships in Ravalli and Cascade Counties. There is also a shortfall in the Supreme Court budget for the implementation of the transfer of the District Courts. Is that cost accounted for anywhere, approximately \$4 million from the Supreme Court budget and is there a request this special session for that? **Mr. Schenck** said the District Court issue has not been addressed. There are concerns with an issue there and a lot of efforts are being made to deal with that. **Lynn Zanto** said there is a shortfall as a result of a Senate Bill. They have to figure how much to allow them but that will not be dealt with in the special session.

Rep. Buzzas referred to the rainy day fund analysis in states and are there special reserves set aside, allocated specifically for these kinds of situations or are we talking about funds similar to our Coal Tax Trust Fund? **Mr. Schenck** said the Coal Tax Trust could be looked upon as a rainy day fund. It was established, probably, for a different purpose. It was not established to

deal with state budget deficits. It was established for future biennia or future generations.

Chuck Swysgood, Office of Budget and Program Planning briefly went through his proposal. He thanked his staff and the LFD staff. He implemented in June the 3 1/2% reduction across the board. It is in effect now. At the same time people were notified by the Revenue Department that there was an additional shortfall of revenue that amounted to an additional \$45 million which made it impossible for his office, under the statute to make those types of reductions, so a special session was called at that time to address the additional shortfall. It has been a difficult process but through this process, especially the first round was more service reduction related than the second round. He was able to do more the second round than he could the first round with the money that was available.

The cuts will be under \$45 million now. He expressed the severity of the shortfall that they are looking at when they go through the next biennium. Right now the staff is instructed to deal with the short term problems.

The plan includes a number of issues. There are the state-wide reductions that, now that the two-day furlough is out, generates about \$6.076 million dollars. The other part of his proposal are the adjustments to HB 124. That was one of the last Bills that came out of the session. Lots of time was spent on that Bill. Some adjustments were not made at the time the Bill was in its final form. Those adjustments will be addressed during the special session which generate about \$2.67 million. They are the gross percentage rates applied to local governments.

One-time funding switches will generate about \$14.183 million. He read the fund transfers to the General Fund as listed, pages 40 and 41. The total is around \$44.8 million.

Questions from the Committee: Follow-up questions, observations and concerns were offered by Reps. Lindeen, Jayne, Buzzas, Fisher, Kasten, Callahan, Sens. Shea, Waterman, Tester, Nelson, Johnson, McCarthy, Zook, Cobb, Christiaens to Director Swysgood.

Senator Keenan made announcements and then adjourned the meeting.

ADJOURNMENT

Adjournment: 10:30 A.M.

SEN. BOB KEENAN, Chair

MARY LOU SCHMITZ, Secretary

BK/MS

EXHIBIT(aph-9aad)